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Nigeria Economic Alert

Assessing the 2021 FGN Budget

NB: Analysis is yearly (y/y) except otherwise stated

Overview

The Appropriation Bill 2021 and the Finance Bill 2020 were signed into law on December 31, 2020. The Appropriation Act sets aside about ₦13 trillion as the 2021 budget for the Federal Government. The Finance Act brought about 80 notable changes across 14 tax laws, to support the government's domestic revenue mobilisation, and the ease of doing business reforms. This brief seeks to assess the 2021 budget and the components, as well as examine the trends.

Breakdown of Nigeria's 2021 budget

The infographics below show the budget benchmarks comprising oil price and production, GDP growth, exchange rate, and inflation rate.

2021 budget benchmarks

01 Oil price
US$40/barrel

02 Oil production
1.86mbpd

03 GDP growth
3%

04 Exchange rate
N379/US$

05 Inflation rate
11.95%

Source: Budget Office of the Federation, PwC analysis

Proposed revenue sources for the 2021 budget

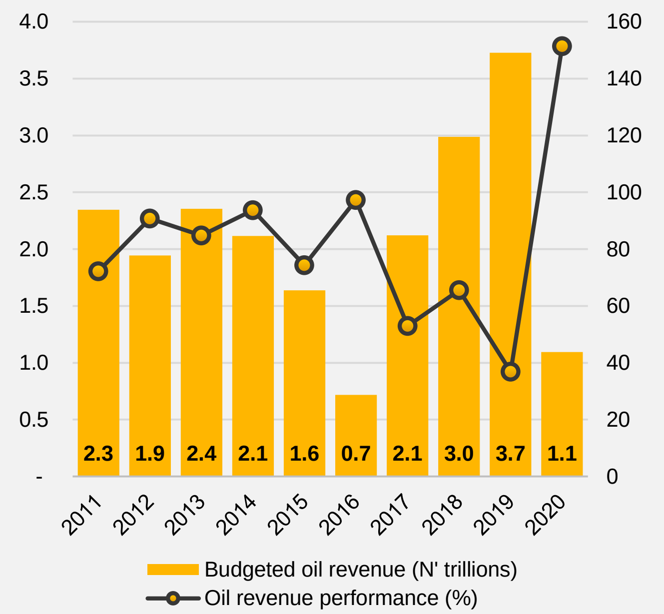
The total projected revenue (inclusive of revenues from GOEs) estimated to finance the 2021 budget is about ₦7.99 trillion, with the budget deficit at about ₦5 trillion. The estimated budget deficit accounts for about 3.9% of the GDP, above the 3% stipulated in the Fiscal Responsibility Act (FRA). The deficit is to be financed through borrowings of ₦4.9 trillion from the domestic and foreign debt markets.

About ₦2.2 trillion is estimated to come from oil receipts. This figure is more than double the ₦1.09 trillion receipt projected in the revised 2020 budget. Similarly, the non-oil revenue projection is pegged at ₦1.49 trillion, lower than the ₦1.62 trillion budgeted in 2020. This reduction is because of the economic impact of the pandemic on revenues anticipated from company income taxes. Many businesses are still grappling with the economic challenges from the COVID-19 pandemic.

Other revenue sources include independent revenues (₦1.06 trillion), revenues from GoEs (₦2.17 trillion), signature bonuses (₦0.68 trillion), among others.

As at the end of 2020, the actual revenue achieved relative to the budgeted figure performed relatively well, with 73% or ₦3.94 trillion realised.

Nigeria's oil revenue performance over the past 10 years



Source: Federal Ministry of Finance, Budget and National Planning (FMFBNP), Budget Office of the Federation, PwC analysis

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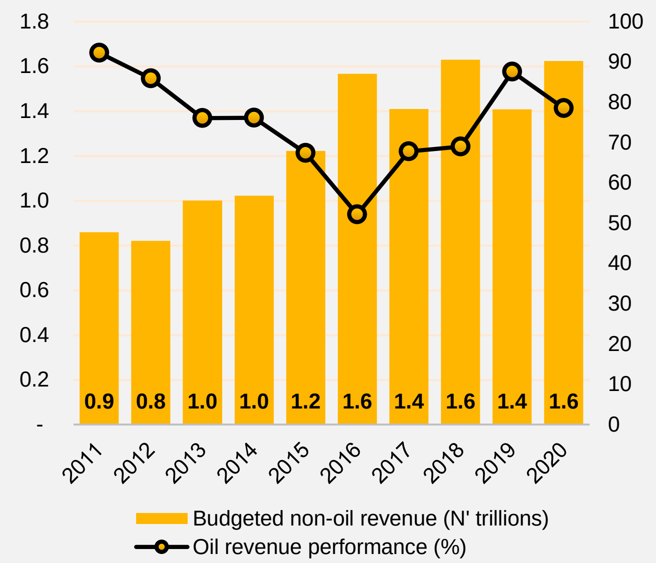
Nigeria's non-oil revenue performance



Source: Federal Ministry of Finance, Budget and National Planning (FMFBNP), Budget Office of the Federation, PwC analysis

About 79% of the non-oil revenue budget was achieved in 2020. The proportion of actual non-oil revenue has been increasing since 2016, from a nine-year low of 52% to 88% in 2019.

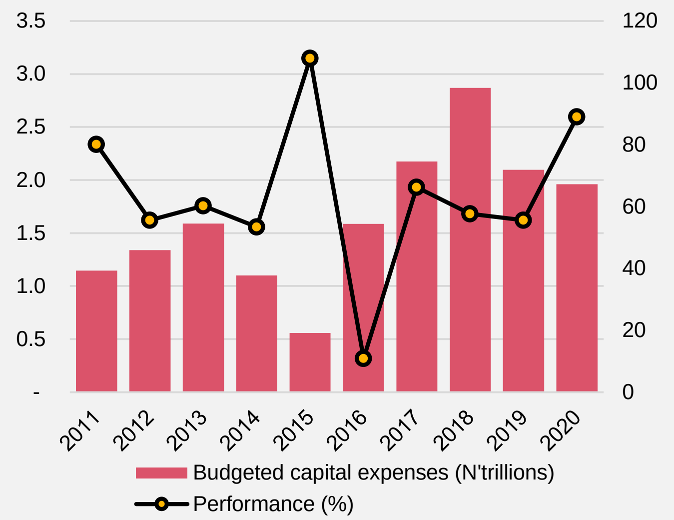
Proposed expenditure for 2021 and analysis of the expenditure in 2020

Personnel cost and debt servicing account for the bulk of Nigeria's recurrent (debt and non-debt) expenditure. Historically, recurrent expenses have always recorded nearly 100% implementation. In some cases, actual recurrent expenses tend to exceed the budgeted amount by a significant amount.

The same trend happened in 2020 as the FG spent about ₦11.4 billion above the budgeted non-debt recurrent expenditure.

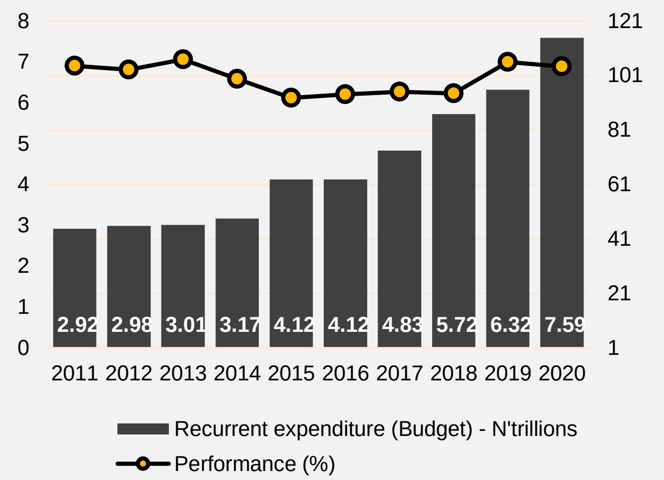
Meanwhile, only 48% of the capital budget has been implemented, on average since 2016. Except for 2020, which was one of the best years for capital expenditure implementation, as nearly 90% of the amount budgeted was deployed.

On average, only about 67% of capital budget has been implemented over the past four years



Source: FMFBNP, BoF, PwC analysis

Recurrent expenditure has maintained more than 90% performance level since 2011



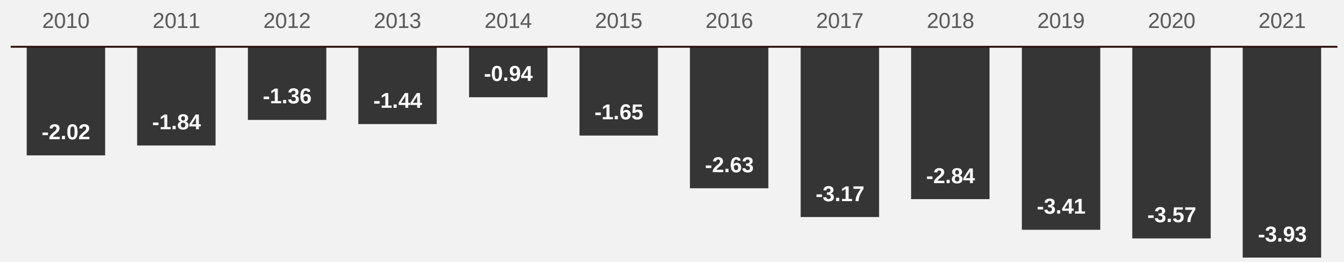
Source: FMFBNP, BoF, PwC analysis

Budget deficit and rising government debt

Nigeria has operated on a budget deficit since 1981, except for 1995 and 1996, when the federal budget recorded a surplus.

The 2021 budget deficit is estimated at ₦5.6 trillion (revised 2020 figure was ₦4.98 trillion), roughly 70% of FGN revenues and about 3.93% of nominal GDP. The growing fiscal deficit has necessitated the need to borrow to plug the shortfall, significantly increased the debt stock, and expanded the cost of servicing outstanding debts.

Budget deficit as a percentage of GDP (%)

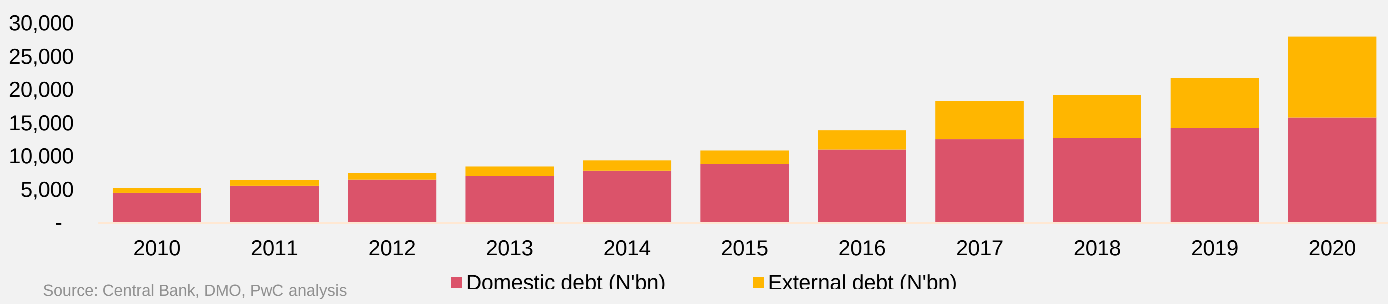


Source: Central Bank, Budget Office of the Federation, PwC analysis

By how much will total debt rise given the borrowing plan in the 2021 budget?

Over the past four years, FGN's total debt stock has nearly tripled from ₦10.9 trillion in 2015 to over ₦28 trillion as of September 2020. The FGN plans to borrow nearly ₦4.69 trillion (excluding multilateral/bilateral project-tied loans) to finance the over ₦5.6 trillion budget deficit. If this plan is executed, it will potentially expand the FGN's total debt outstanding to more than ₦32 trillion by the end of 2021.

Nigeria's outstanding debt over the past decade



Source: Central Bank, DMO, PwC analysis

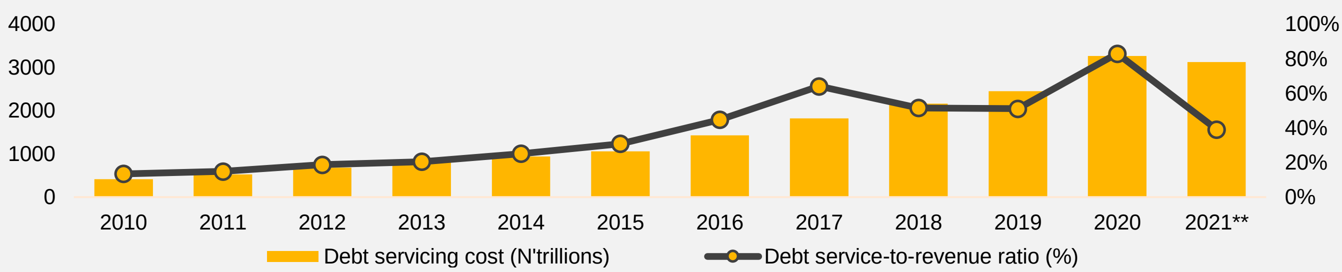
Though positive market sentiments have helped to sustain the recent rise in crude oil prices, the likelihood that the FGN will achieve its revenue projections for the 2021 budget remains uncertain.

Another way the FG has sought to finance the deficit is through ways and means advances from the CBN. In 2020, total ways and means advances to the FG stood at ₦2.86 trillion, representing roughly a quarter of the 2020 revised budget. The total cost of servicing ways and means advances stood at about ₦912.6 billion in 2020.

The increasing cost of servicing debt continues to weigh on the FGN's revenue profile.

The growth in FGN's debt stock has led to expansion in debt servicing costs.

Debt servicing-to-revenue stood at 83% in 2020



Source: BoF, FMFBNP, PwC analysis ** budgeted

Actual debt servicing cost in 2020 stood at ₦3.27 trillion and represented about 10% over the budgeted amount of ₦2.95 trillion. This puts the debt-to-revenue ratio at approximately 83%, nearly double the 46% that was budgeted. This implies that about ₦83 out of every ₦100 the FG earned was used to settle interest payments for outstanding domestic and foreign debts within the reference period. In 2021, the FG plans to spend ₦3.32 trillion to service its outstanding debt. This is slightly higher than the ₦2.95 trillion budgeted in 2020.

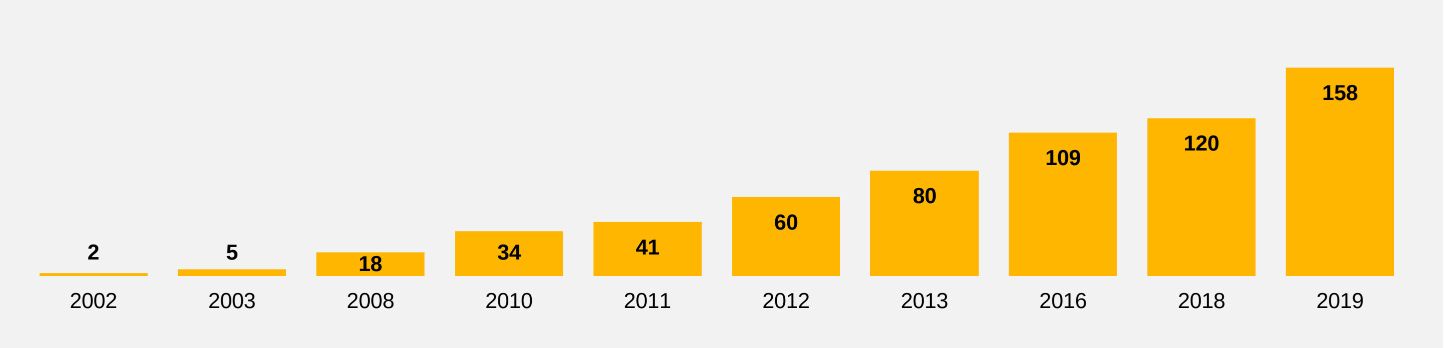
Finance Act 2020: Leveraging the Unclaimed Fund Trust to plug the budget deficit

One of the key objectives of the FG's Finance Act 2020 is to shore up revenue to finance expenditure. A critical change in the Finance Act 2020 is the section that grants the FGN the power to borrow money in dormant accounts and unclaimed dividends of up to six years. The amount realised will be deposited in the Unclaimed Fund Trust Fund, which will be managed by the Debt Management Office (DMO).

According to the Nigeria Inter-Bank Settlement System (NIBSS), there are about 44.5 million dormant bank accounts in Nigeria.

The balances in these accounts constitute roughly 2.5% of total bank deposits of nearly ₦30 trillion. This means that the total amount in dormant accounts nationwide stands at about ₦737 billion. Similarly, the Securities and Exchange Commission (SEC) puts the outstanding unclaimed dividend in 2019 at about ₦158.4billion compared to ₦120billion in 2018. Essentially, the potential amount of money the FG is targeting is around ₦900 billion, which can potentially offset about 18% of the fiscal deficit.

Unclaimed dividend in Nigeria (N' billions)



How realistic is the new crude oil price benchmark in the face of changing global energy market?

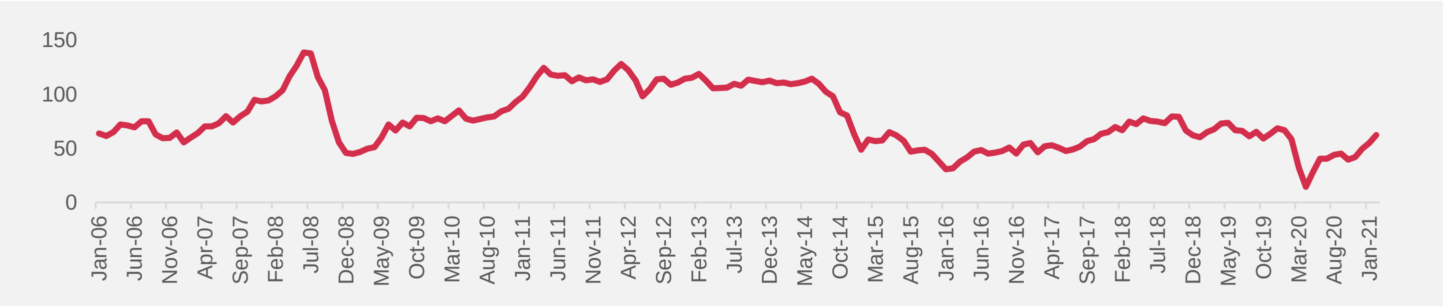
The 2021 budget is based on an oil price benchmark of US$40 per barrel and oil production output of 1.86 million barrels per day. The current global situation may support the realisation of this target, in the short to medium term. For instance, increased rate of vaccinations against COVID-19, the OPEC+ oil production cut, a new United States President, declining U.S. crude inventories, China's strong economic growth as well as geopolitical tensions in major oil producing countries such as Russia/Ukraine and Israel/Iran are factors driving the recent rally in oil price.

Market analysts and global energy organisations are projecting relatively strong crude oil demand, as economic activities commence in many countries. In a recently released report, OPEC increased its global oil demand projection by about 190,000 bpd while the International Energy Agency (IEA) ramped up projections by 230,000 bpd.[1]

As of April 16, 2021, the Bonny Light price traded slightly above US$65 per barrel, higher than the US$40 per barrel benchmarked in the 2021 budget.[2]

Nigeria will have to shed off about 313,000 bpd for the first half of 2021 in line with OPEC+ cut agreement to stabilise global oil prices. While this cut has already been factored into the oil production benchmark of 1.86 mbpd, the potential challenge lies in the possibility of another cut, should the other variants of the COVID-19 virus become more pronounced, and certain countries impose another lockdown. For instance, as at April 16, 2021, a new variant referred to as a double mutation, has resulted in India reporting more than 14.5 million COVID cases and over 175,600 fatalities so far. As a result, Nigeria's fiscal space could be tightened, if these weak sentiments prevail.

Bonny light oil price (US$ per barrel)



Source: OPEC Monthly Report, PwC analysis

1. https://oilprice.com/Latest-Energy-News/World-News/Oil-Soars-5-As-Bullish-News-Mounts.html
2. https://oilprice.com/oil-price-charts/

Beyond crude oil, receipt from gas sales could well provide relative stability to FG's revenue. In 2020, actual gas receipts exceeded its projection by 79%. The fundamentals for gas remain strong especially in the light of the ongoing call for a reduction in global carbon emissions. Nigeria needs to ramp up investment in domestic gas production and expand its capacity for gas exports.

Conclusion

COVID-19 has led to a fragile economic growth globally and exposed the domestic economy's vulnerabilities to external shocks arising from fluctuations in oil prices. While the pandemic presents risks, it nevertheless offers the country another opportunity to diversify its economic base while aggressively pursuing institutional reforms that would drastically reduce the cost of governance and ensure productivity in the public sector. More importantly, relentlessly implementing the 2021 budget will go a long way in averting an impending recession as a result of the pandemic outbreak.

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